

PRINCIPAL FINANCIAL GROUP INC
Form 11-K
June 29, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended: **December 31, 2010**

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: **1-16725**

The Principal Select Savings Plan for Employees
(Full title of the plan)

Principal Financial Group, Inc.
(Name of Issuer of the securities held pursuant to the plan)

711 High Street
Des Moines, Iowa 50392
(Address of principal executive offices) (Zip Code)

Report of Independent Registered Public Accounting Firm

The Benefit Plans Administration Committee
Principal Life Insurance Company

We have audited the accompanying statements of net assets available for benefits of The Principal Select Savings Plan for Employees as of December 31, 2010 and 2009, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2010 and 2009, and the changes in its net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2010, is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to

the financial statements taken as a whole.

/s/ Ernst & Young LLP

Des Moines, Iowa
June 29, 2011

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The Principal Select Savings Plan for Employees

Statements of Net Assets Available for Benefits

| | December 31 | |
|---|-------------------------|------------------|
| | 2010 | 2009 |
| Assets | | |
| Investments at fair value: | | |
| Unallocated investment options: | | |
| Guaranteed interest accounts | \$ 49,394,988 | \$ 51,968,974 |
| Separate accounts of insurance company | 1,099,709,012 | 927,833,298 |
| Principal Financial Group, Inc. ESOP | 75,259,838 | 60,280,300 |
| Total invested assets at fair value | 1,224,363,838 | 1,040,082,572 |
| Receivables: | | |
| Contribution receivable from Principal Life Insurance Company | 2,194 | 184 |
| Contributions receivable from participants | 3,528 | |
| Notes receivable from participants | 19,871,117 | 18,460,785 |
| Total receivables | 19,876,839 | 18,460,969 |
| Net assets available for benefits | \$ 1,244,240,677 | \$ 1,058,543,541 |

See accompanying notes.

The Principal Select Savings Plan for Employees

Statements of Changes in Net Assets Available for Benefits

| | Year Ended December 31 | |
|--|-------------------------------|------------------|
| | 2010 | 2009 |
| Additions | | |
| Investment income: | | |
| Interest | \$ 1,193,796 | \$ 1,618,564 |
| Dividends | 1,335,560 | 1,220,564 |
| Net appreciation of investments | 175,195,922 | 162,845,311 |
| Total investment income | 177,725,278 | 165,684,439 |
| Interest income on notes receivable from participants | 1,201,136 | 1,292,114 |
| Contributions: | | |
| Principal Life Insurance Company | 32,390,305 | 30,701,738 |
| Employees | 62,098,514 | 60,834,331 |
| Total contributions | 94,488,819 | 91,536,069 |
| Total additions | 273,415,233 | 258,512,622 |
| Deductions | | |
| Benefits paid to participants | 86,214,687 | 66,015,483 |
| Transfers to affiliated and unaffiliated plans, net | 1,171,071 | 536,219 |
| Administrative expenses | 332,339 | 312,346 |
| Total deductions | 87,718,097 | 66,864,048 |
| Net increase | 185,697,136 | 191,648,574 |
| Net assets available for benefits at beginning of year | 1,058,543,541 | 866,894,967 |
| Net assets available for benefits at end of year | \$ 1,244,240,677 | \$ 1,058,543,541 |

See accompanying notes.

The Principal Select Savings Plan for Employees

Notes to Financial Statements

December 31, 2010

1. Significant Accounting Policies

Basis of Accounting

The accounting records of The Principal Select Savings Plan for Employees (the Plan) are maintained on the accrual basis of accounting.

Valuation of Investments

The unallocated investment options consist of guaranteed interest accounts under a guaranteed benefit policy (described in the Employee Retirement Income Security Act of 1974, as amended (ERISA 401(b)) and separate accounts (described in ERISA 3(17)) of Principal Life Insurance Company (Principal Life). The guaranteed interest accounts and separate accounts are reported at fair value as determined by Principal Life. The Principal Financial Group Inc. Employee Stock Ownership Plan (ESOP), which consists of common stock of Principal Financial Group, Inc., the ultimate parent of Principal Life, is reported at fair value based on the quoted closing market price of the stock on the last business day of the Plan year.

These unallocated investment options are non-benefit-responsive and are valued at fair value. The guaranteed interest accounts' fair value is the amount plan participants would receive currently if they were to withdraw or transfer funds within the Plan prior to their maturity for an event other than death, disability, termination, or retirement. This fair value represents guaranteed interest account values adjusted to reflect current market interest rates only to the extent such market rates exceed contract crediting rates. This value represents contributions allocated to the guaranteed interest accounts, plus interest at the contractually guaranteed rate, less funds used to pay Plan benefits and the insurance company's administrative expenses. The

separate accounts of insurance company represent contributions invested in domestic and international common stocks, high-quality short-term debt securities, real estate, private market bonds and mortgages, and high-yield fixed-income securities which are slightly below investment grade, all of which are valued at fair value.

Notes Receivable from Participants

The notes receivable from participants are reported at their unpaid principal balance plus any accrued but unpaid interest. Interest income on notes receivable from participants is recorded when earned.

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The Principal Select Savings Plan for Employees

Notes to Financial Statements (continued)

1. Significant Accounting Policies (continued)

Payment of Benefits

Benefits are recorded when paid.

Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market volatility, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes and supplemental schedule. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts in the statement of net assets available for benefits and statement of changes in net assets available for benefits have been reclassified to conform to the current year presentation.

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The Principal Select Savings Plan for Employees

Notes to Financial Statements (continued)

1. Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In September 2010, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires participant loans to be measured at their unpaid principal balance plus any accrued but unpaid interest and classified as notes receivable from participants. Previously loans were measured at fair value and classified as investments. The guidance is effective for fiscal years ending after December 15, 2010, and is required to be applied retrospectively. The adoption of this guidance did not change the value of participant loans from the amount previously reported as of December 31, 2009. Participant loans have been reclassified to notes receivable from participants as of December 31, 2009.

In January 2010, the FASB issued authoritative guidance to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance clarified that

disclosures should be presented separately for each class of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. The guidance also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, the guidance introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance was effective for reporting periods beginning after December 15, 2009. Since the guidance only affects fair value measurement disclosures, adoption of the guidance did not affect the Plan's net assets available for benefits or its changes in net assets available for benefits.

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The Principal Select Savings Plan for Employees

Notes to Financial Statements (continued)

1. Significant Accounting Policies (continued)

In September 2009, the FASB issued authoritative guidance for measuring the fair value to allow entities to use net asset value (NAV) per share (or its equivalent), as a practical expedient, to measure fair value when the investment does not have a readily determinable fair value and the net asset value is calculated in a manner consistent with investment company accounting. The Plan adopted the guidance for the reporting period ended December 31, 2009, and has utilized the practical expedient to measure the fair value of investments within the scope of this guidance based on the investment's NAV. In addition, as a result of adopting the guidance, the Plan has provided additional disclosures regarding the nature and risks of investments within the scope of this guidance. Refer to Note 5 for these disclosures. Adoption of the guidance did not have a material effect on the Plan's net assets available for benefits or its changes in net assets available

for benefits.

In April 2009, the FASB issued authoritative guidance, which provided additional information on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to its normal market activity. It also provided additional guidance on circumstances that may indicate that a transaction is not orderly and on defining major categories of debt and equity securities to comply with the disclosure requirements of fair value reporting. The Plan adopted the guidance for the reporting period ended December 31, 2009. Adoption of the guidance did not have a material effect on the Plan's net assets available for benefits or its changes in net assets available for benefits.

2. Description of the Plan

The Plan is a defined contribution plan (401(k) plan) that was established January 1, 1985. The Plan is available to substantially all employees of Principal Life or its subsidiaries (the Company).

Information about the Plan agreement, eligibility, and benefit provisions is contained in the Summary Plan Description. Copies of the Summary Plan Description are available from the Benefit Administration Department or the Intranet. The Plan is subject to the provisions of ERISA.

The Principal Select Savings Plan for Employees

Notes to Financial Statements (continued)

2. Description of the Plan (continued)

Contributions

On January 1, 2006, Principal Life made several changes to the retirement program. Participants who were age 47 or older with at least ten years of service on December 31, 2005, could elect to retain the prior benefit provisions under the qualified defined benefit retirement Plan and the 401(k) Plan and forgo receipt of the additional benefits offered by amendments to Principal Life's 401(k). The participants who elected to retain the prior benefit provisions are referred to as Grandfathered Choice Participants.

Matching contributions for participants other than Grandfathered Choice Participants were increased from 50% to 75% of deferrals, with the maximum matching deferral increasing from 6% to 8%.

Vesting

Participants are eligible for immediate entry into the Plan with vesting at 100% after three years. The funds accumulate along with interest and investment return and are available for withdrawal by participants at retirement, termination, or when certain withdrawal specifications are met. The participants may also obtain loans of their vested accrued benefit, subject to certain limitations described in the Plan document. The federal and state income taxes of the participant are deferred on the contributions until the funds are withdrawn from the Plan.

Forfeitures

Upon termination of employment, participants forfeit their nonvested balances. Forfeited balances of terminated participants' nonvested accounts are used to reduce Company contributions. At December 31, 2010 and 2009, forfeited nonvested account balances totaled \$41,454 and \$44,761, respectively. In 2010 and 2009, employer contributions were reduced by \$1,259,764 and \$2,590,822, respectively, from forfeited nonvested accounts.

The Principal Select Savings Plan for Employees

Notes to Financial Statements (continued)

2. Description of the Plan (continued)

Participant Loans

The Plan document provides for loans to active participants, which are considered a participant-directed investment of his/her account. The loan is a Plan asset, but only the borrowing participant's account shall share in the interest paid on the loan or bear any expense or loss incurred because of the loan. The rate of interest is 2% higher than the Federal Reserve Bank Prime Loan rate at the time of the loan. The rate is set the day a loan is approved, and the rate for the loans issued in 2010 and 2009 was 5.25%. The notes receivable balance was reduced by \$1,198,838 and \$2,213,491 in 2010 and 2009, respectively, for terminated participants that received their account balance, net of the outstanding loans, as a benefit distribution.

Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event the Plan terminates, participants will become fully vested in their accounts.

3. Income Tax Status

The Plan has received a determination letter from the Internal Revenue Service (the IRS) dated February 28, 2003, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the Code) and, therefore, the related trust is exempt from taxation. Subsequent to this determination by the IRS, the Plan was amended and restated. Once qualified, the Plan is required to operate in conformity with the terms of the Plan document and the Code to maintain its qualification. The Benefit Plans Administration Committee (BPAC) and the Plan sponsor intend to operate the Plan in conformity with the provisions of the Plan document and the Code. BPAC and the Plan sponsor acknowledge that inadvertent errors may occur in the operation of the Plan. If such inadvertent errors occur, BPAC and the Plan sponsor represent that they will take the necessary steps to bring the Plan's operations into compliance with the Code, including voluntarily and timely correcting such errors in accordance with procedures established by the IRS.

The Principal Select Savings Plan for Employees

Notes to Financial Statements (continued)

3. Income Tax Status (continued)

Accounting principles generally accepted in the United States require plan management to evaluate uncertain tax positions taken by the Plan. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the IRS. The plan administrator has analyzed the tax positions taken by the Plan and has concluded that as of December 31, 2010, there are no uncertain positions taken or expected to be taken. The Plan has recognized no interest or penalties related to uncertain tax positions. The Plan is subject to routine audits by taxing jurisdictions. The IRS commenced examination of the Plan for 2008 in August 2010. The plan administrator believes it is no longer subject to income tax examinations for years prior to 2007.

4. Investments

Contributions are invested in unallocated guaranteed interest accounts supported by the general account of insurance company (a pooled account invested primarily in fixed income securities having a range of maturities); in separate accounts of insurance company, the portfolios of which are primarily invested in domestic and international common stocks, high-quality short-term debt securities, real estate, private market bonds and mortgages, and high-yield fixed-income securities which are slightly below investment grade, as appropriate for each separate account; and The Principal Financial Group Inc. ESOP, which consists of common stock of Principal Financial Group, Inc., the ultimate parent of Principal Life. Participants elect the investment(s) in which to have their contributions invested.

The Principal Select Savings Plan for Employees

Notes to Financial Statements (continued)

4. Investments (continued)

The following presents individual investments that represent 5% or more of the Plan's net assets available for benefits in 2010 and 2009. Principal Life is a party in interest with respect to these investments.

| | December 31 | |
|---|-----------------------|---------------|
| | 2010 | 2009 |
| Large-Cap Stock Index Separate Account | \$ 138,471,505 | \$ 82,394,133 |
| Diversified International Separate Account | 100,006,483 | 89,803,495 |
| International Emerging Markets Separate Account | 94,948,394 | 82,278,171 |
| Bond and Mortgage Separate Account | 85,247,318 | 71,326,432 |
| Small-Cap Stock Index Separate Account | 79,740,461 | 62,209,141 |
| Principal Financial Group, Inc. ESOP | 75,259,838 | 60,280,300 |
| Medium Company Blend Separate Account | 68,704,871 | * |
| U.S. Property Separate Account | 68,032,089 | 70,014,680 |
| Money Market Separate Account | 63,699,465 | 69,773,529 |

*Less than 5% of the fair value of net assets available for benefits at respective date.

During 2010 and 2009, the Plan's investments that are related to Principal Life appreciated (depreciated) in value by \$175,195,922 and \$162,845,311, respectively, as follows:

| | Year Ended December 31 | |
|--|-------------------------------|----------------|
| | 2010 | 2009 |
| Guaranteed interest accounts | \$ 94,260 | \$ (332,450) |
| Separate accounts of insurance company | 153,693,987 | 147,329,049 |
| Principal Financial Group, Inc. ESOP | 21,407,675 | 15,848,712 |
| | \$ 175,195,922 | \$ 162,845,311 |

The Principal Select Savings Plan for Employees

Notes to Financial Statements (continued)

5. Fair Value of Financial Instruments

Valuation Hierarchy

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date (an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels.

Level 1 Fair values are based on unadjusted quoted prices in active markets for identical assets. Our Level 1 assets include the Principal Financial Group, Inc. ESOP.

Level 2 Fair values are based on inputs other than quoted prices within Level 1 that are observable for the asset, either directly or indirectly. Our Level 2 assets are separate accounts of insurance company and are reflected at the NAV price.

Level 3 Fair values are based on significant unobservable inputs for the asset. Our Level 3 assets include guaranteed interest accounts and real estate separate accounts of the insurance company.

Transfers between fair value hierarchy levels are recognized at the beginning of the reporting period.

Determination of Fair Value

The following discussion describes the valuation methodologies used for assets measured at fair value on a recurring basis. The techniques utilized in estimating the fair values of financial instruments are reliant on the assumptions used. Care should be exercised in deriving

conclusions based on the fair value information of financial instruments presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial instrument. Such estimates do not consider the tax impact of the realization of unrealized gains or losses. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial instrument. There were no significant changes to the valuation processes during 2010.

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The Principal Select Savings Plan for Employees

Notes to Financial Statements (continued)

5. Fair Value of Financial Instruments (continued)

Guaranteed Interest Accounts

The guaranteed interest accounts cannot be sold to a third-party, thus, the only option to exit the guaranteed interest accounts is to withdraw the funds prior to maturity. The fair value of the account is the value paid when funds are withdrawn prior to their maturity. The fair value of the guaranteed interest accounts is reflected in Level 3 and the valuation is based on the applicable interest rate. If the applicable interest rate is greater than the interest rate on the account, the fair value is the contract value reduced by a percentage. This percentage is equal to the difference between the applicable interest rate and the interest rate on the account, multiplied by the number of years (including fractional parts of a year) until the maturity date. If the applicable interest rate is equal to or less than the interest rate on the account, the fair value is equal to the contract value.

Separate Accounts of Insurance Company

The NAV of each of the separate accounts is calculated in a manner consistent with U.S. GAAP

for investment companies and is determinative of their fair value and represents the price at which the Plan would be able to initiate a transaction. Most separate accounts are reflected in Level 2. Several of the separate accounts invest in publicly quoted mutual funds or actively managed stocks. Some of the separate accounts also invest in fixed income securities. The fair value of the underlying mutual funds or stock and of the underlying securities, which is based on quoted prices of similar assets, is used to determine the NAV of the separate account which is not publicly quoted.

One separate account invests in real estate, for which the fair value of the underlying real estate is based on unobservable inputs and used to determine the NAV of the separate account. The fair value of the underlying real estate is estimated using discounted cash flow valuation models that utilize public real estate market data inputs such as transaction prices, market rents, vacancy levels, leasing absorption, market cap rates and discount rates. In addition, each property is appraised annually by an independent appraiser. During 2010 and 2009, this specific separate account had a temporary withdrawal limitation related to turmoil in the credit markets that resulted in a sharp slowdown in the sale of commercial real estate assets and is reflected in Level 3.

The Principal Select Savings Plan for Employees

Notes to Financial Statements (continued)

5. Fair Value of Financial Instruments (continued)

Principal Financial Group, Inc. ESOP

The Principal Financial Group Inc. ESOP, which consists of common stock of Principal Financial Group, Inc., the ultimate parent of Principal Life, is reported at the quoted closing market price on the last business day of the Plan year and is reflected in Level 1.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below.

| | Assets Measured at Fair Value | As of December 31, 2010 Fair Value Hierarchy Level | | |
|---|----------------------------------|---|-------------|---------------|
| | | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Guaranteed interest accounts | \$ 49,394,988 | \$ | \$ | \$ 49,394,988 |
| Separate accounts of insurance company: | | | | |
| Fixed income security | 105,258,341 | | 105,258,341 | |
| Lifetime balanced asset allocation | 169,747,870 | | 169,747,870 | |
| Large U.S. equity | 247,657,740 | | 247,657,740 | |
| Small/Mid U.S. equity | 238,768,265 | | 238,768,265 | |
| International equity | 194,954,877 | | 194,954,877 | |
| Short-term fixed income | 63,699,465 | | 63,699,465 | |
| U.S. real estate | 68,032,089 | | | 68,032,089 |
| Other | 11,590,365 | | 11,590,365 | |
| Principal Financial Group, Inc. ESOP | 75,259,838 | | | |